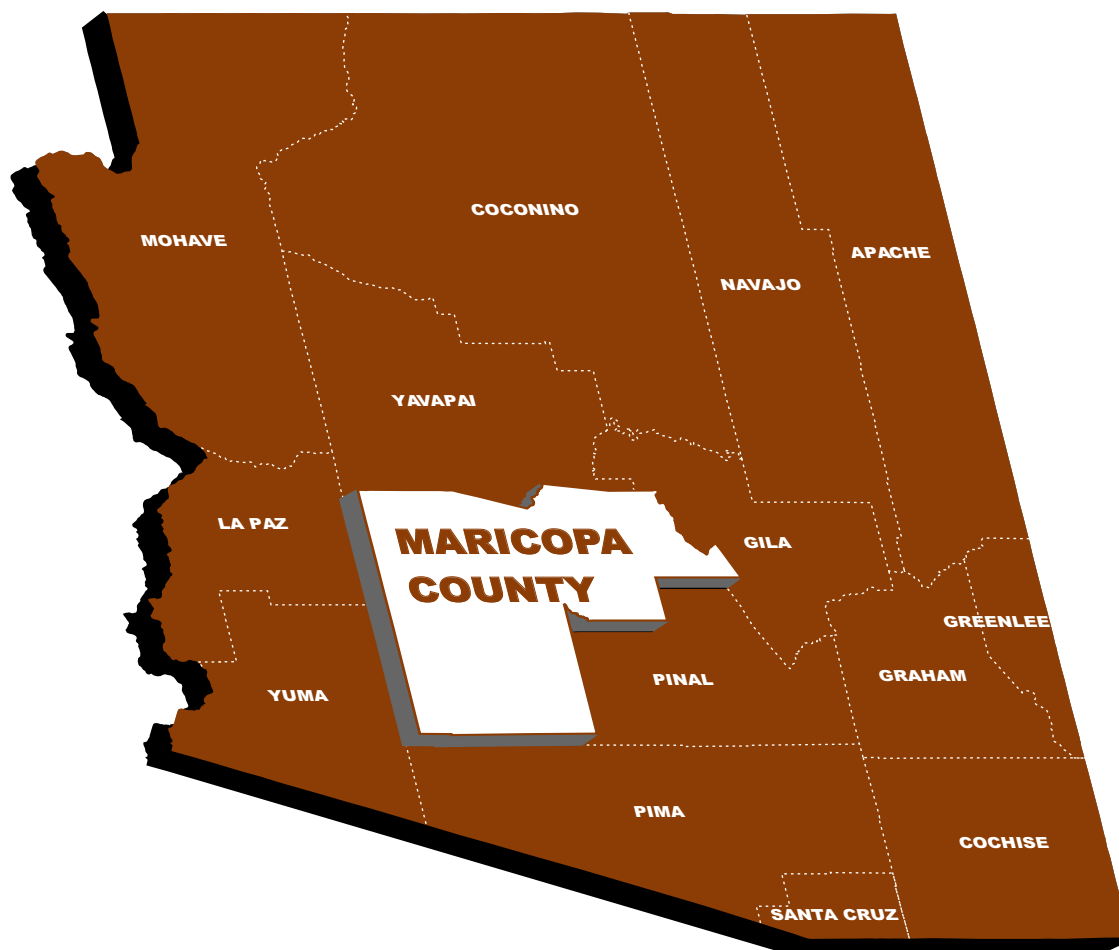


Risk Management and Employee Benefits Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2008



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2008

MARICOPA COUNTY
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Independent Auditor's Report

Board of Supervisors of
Maricopa County Risk Management
and Employee Benefits Trust Funds
Maricopa County, Arizona

We have audited the accompanying statements of net assets - internal service funds of the Maricopa County Risk Management and Employee Benefits Trust Funds (Trust Funds) as of June 30, 2008, and the related statements of revenues, expenses and changes in fund net assets - internal service funds, and cash flows - internal service funds for the year then ended. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Trust Funds' financial statements are intended to present the financial position, changes in financial position and cash flows of only that portion of the governmental activities of Maricopa County that is attributable to the Trust Funds. They do not purport to and do not present fairly the financial position of the Maricopa County as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Risk Management and Employee Benefits Trust Funds as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Trust Funds have not presented the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Maricopa County Risk Management and Employee Benefits Trust Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Clifton Henderson LLP

Phoenix, Arizona
November 26, 2008

**Report On Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Supervisors of
Maricopa County Risk Management
and Employee Benefits Trust Funds Project
Maricopa County, Arizona

We have audited the financial statements of Maricopa County Risk Management and Employee Benefits Trust Funds (the Trust Funds) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 26, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Trust Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the governing board, and management and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gundersen LLP

Phoenix, Arizona
November 26, 2008

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Net Assets—Internal Service Funds
June 30, 2008

	<u>Risk Management</u>	<u>Employee Benefits</u>
Assets		
Current assets:		
Cash and cash equivalents-		
Risk management	\$ 43,085,804	
Employee benefits		\$ 52,151,574
Interest receivable	256,280	310,800
Accounts receivable		2,155,995
Prepaid insurance	1,482,692	115,270
Total current assets	<u>44,824,776</u>	<u>54,733,639</u>
Noncurrent assets:		
Capital assets	108,666	63,407
Less: accumulated depreciation	85,649	53,746
Total noncurrent assets	<u>23,017</u>	<u>9,661</u>
Total assets	<u>44,847,793</u>	<u>54,743,300</u>
Liabilities		
Current liabilities:		
Accounts payable	1,079,364	4,804,943
Employee compensation payable	125,563	182,179
RBUC and IBNR claims	24,568,575	10,546,651
Total current liabilities	<u>25,773,502</u>	<u>15,533,773</u>
Noncurrent liabilities:		
RBUC and IBNR claims	33,503,519	
Total noncurrent liabilities	<u>33,503,519</u>	
Total liabilities	<u>59,277,021</u>	<u>15,533,773</u>
Net Assets		
Invested in capital assets	23,017	9,661
Unrestricted (deficit)	(14,452,245)	39,199,866
Total net assets (deficit)	<u>\$ (14,429,228)</u>	<u>\$ 39,209,527</u>

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Net Assets—Internal Service Funds
Year Ended June 30, 2008

	<u>Risk Management</u>	<u>Employee Benefits</u>
Operating revenues:		
Charges for services	\$ 38,272,014	
County and employee premiums		\$ 122,704,164
Other income	557,129	101,675
Total operating revenues	<u>38,829,143</u>	<u>122,805,839</u>
Operating expenses:		
Personal services	1,727,685	2,051,888
Supplies and services	323,901	84,483
Accounting and auditing fees	32,950	
Actuary fees	44,366	72,266
Consulting and management fees	212,109	
Brokers' fees	54,575	
Claims administration service fees	601,337	7,452,035
Legal expenses	7,329,475	
Workers' compensation taxes	404,940	
Claims and insurance:		
Auto liability claims paid	1,245,872	
Auto liability RBUC and IBNR claims decrease in estimate	(611,320)	
Total auto liability	<u>634,552</u>	
General liability claims paid	3,168,264	
General liability RBUC and IBNR claims increase in estimate	176,003	
Total general liability	<u>3,344,267</u>	
Workers' compensation claims paid	4,420,652	
Workers' compensation RBUC and IBNR claims increase in estimate	936,836	
Total workers' compensation	<u>5,357,488</u>	
Medical malpractice claims paid	3,675,378	
Medical malpractice RBUC and IBNR claims decrease in estimate	(218,492)	
Total medical malpractice	<u>3,456,886</u>	
Auto physical damage claims paid	396,496	
Auto physical damage RBUC decrease in estimate	(31,716)	
Total auto physical damage	<u>364,780</u>	
Property claims paid	211,588	
Property claims RBUC increase in estimate	90,764	
Total property	<u>302,352</u>	
Medical claims paid		68,650,914
Medical IBNR claims increase in estimate		7,956,999
Total medical		<u>76,607,914</u>
Pharmacy claims paid		12,817,563
Pharmacy IBNR claims increase in estimate		218,459
Total pharmacy		<u>13,036,022</u>

The accompanying notes are an integral part of the financial statements.

(Continued)

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Net Assets—Internal Service Funds
Year Ended June 30, 2008
(Continued)

	<u>Risk Management</u>	<u>Employee Benefits</u>
Short-term disability claims paid		1,641,587
Short-term disability IBNR claims increase in estimate		223,527
Total short-term disability		1,865,114
Dental claims paid		2,263,319
Dental IBNR claims decrease in estimate		(31,000)
Total dental		2,232,319
Behavioral health claims paid		899,922
Behavioral health IBNR claims increase in estimate		149,777
Total behavioral health		1,049,699
Vision claims paid		1,176,009
Vision IBNR claims decrease in estimate		(33,466)
Total vision		1,142,543
Incentives paid		3,202
Wellness claims/incentives paid		89,981
Unemployment claims	769,150	
General liability insurance premiums	1,163,376	
Workers' compensation insurance premiums	396,412	
Crime insurance premiums	29,891	
Property insurance premiums	853,239	
Malpractice insurance premiums	1,626,523	
Dental premiums paid		5,662,667
Life insurance premiums paid		4,715,987
Flexible spending accounts claims paid		2,353,201
Cigna for seniors claims paid		598,553
Other benefit premiums paid		229,721
Employee assistance program		187,220
Depreciation	9,655	4,586
Total operating expenses	<u>29,039,909</u>	<u>119,439,401</u>
Operating income	9,789,234	3,366,438
Nonoperating revenues:		
Investment income	1,794,786	2,587,109
Total nonoperating revenues	<u>1,794,786</u>	<u>2,587,109</u>
Income before transfers	11,584,020	5,953,547
Capital contribution		14,247
Transfer to other County funds		(3,000,000)
Net transfers		<u>(2,985,753)</u>
Increase in net assets	11,584,020	2,967,794
Total net assets (deficit), July 1, 2007	<u>(26,013,248)</u>	<u>36,241,733</u>
Total net assets (deficit), June 30, 2008	<u>\$ (14,429,228)</u>	<u>\$ 39,209,527</u>

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Cash Flows—Internal Service Funds
Year Ended June 30, 2008

	<u>Risk Management</u>	<u>Employee Benefits</u>
Cash flows from operating activities:		
Receipts from employees and other funds	\$ 38,272,014	\$121,684,820
Other receipts	557,129	101,675
Payments for fees, supplies, and services	(9,256,363)	(7,608,784)
Payments for insurance claims	(13,887,400)	(90,310,287)
Payments for insurance premiums	(3,934,830)	(13,624,405)
Payments to employees	(1,747,777)	(2,015,603)
Net cash provided by operating activities	<u>10,002,773</u>	<u>8,227,416</u>
Cash flows from non-capital financing:		
Interest payments	(51,951)	(37,468)
Transfers from (to) other funds		(3,000,000)
Net cash used for non-capital financing activities	<u>(51,951)</u>	<u>(3,037,468)</u>
Cash flows from capital and related activities:		
Purchase of capital assets	<u>(21,715)</u>	
Cash flows from investing activities:		
Interest received on investments	<u>1,794,786</u>	<u>2,587,109</u>
Net increase in cash and cash equivalents	<u>11,723,893</u>	<u>7,777,057</u>
Cash and cash equivalents, July 1, 2007	<u>31,361,911</u>	<u>44,374,517</u>
Cash and cash equivalents, June 30, 2008	<u><u>\$ 43,085,804</u></u>	<u><u>\$ 52,151,574</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,789,234	\$ 3,366,438
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,655	4,586
Net change in RBUC and IBNR claims, noncurrent portion	2,851,538	
Changes in assets and liabilities:		
Increase in:		
Accounts receivable		(1,019,344)
Employee compensation payable		36,285
RBUC and IBNR claims, current portion		8,340,583
Decrease in:		
Prepaid insurance	134,612	122,944
Accounts payable	(251,581)	(2,624,076)
Employee compensation payable	(20,092)	
Use tax	(1,130)	
RBUC and IBNR claims, current portion	(2,509,463)	
Net cash provided by operating activities	<u><u>\$ 10,002,773</u></u>	<u><u>\$ 8,227,416</u></u>
Noncash investing, capital, and noncapital financing activities:		
Capital contributions		(\$14,247)
Capital assets transferred from governmental activities		63,407
Accumulated depreciation transferred from governmental activities		(49,160)

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

NOTE 1 - Organization and Summary of Significant Accounting Policies

Maricopa County, Arizona (the County), in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a trust fund and declares itself self-insured. For financial statement presentation purposes, the Self-insured Trust Fund is reported as Risk Management and Employee Benefits Trust Funds (Funds) and all monies held in these Funds are considered unrestricted. The Funds' financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The accompanying financial statements are those of the funds and do not represent the financial statements of the County. The Maricopa County, Arizona *Comprehensive Annual Financial Report* as of and for the year ended June 30, 2008, will report the Funds as governmental activities on the government-wide financial statements since they predominantly service the County's governmental funds. A summary of the Funds' significant accounting policies follows.

A. Reporting Entity

The Funds are accounted for as internal service funds of Maricopa County, Arizona, under the direction of an administrator appointed by the County Board of Supervisors. In addition, the Funds are administered by no less than six joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County. The County Board of Supervisors also appoints the trustees. However, the ultimate financial accountability for the Funds remains with the County. The County is responsible for the management and operations of the financing of the uninsured risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and for certain health benefits (pharmacy, medical, dental, short-term disability, medical incentives, and wellness incentives) to eligible employees and their dependents.

B. Fund Accounting

The Funds' accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Funds' available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, net assets, revenues, and expenses.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

The Funds' financial transactions are recorded and reported as internal service funds since their operations are financed and operated in a manner similar to private business enterprises. The intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to other departments within the County on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Presentation and Accounting

The financial statements include statements of net assets; statements of revenues, expenses, and changes in fund net assets; and statements of cash flows.

The statements of net assets provide information about the assets, liabilities, and net assets of the Funds at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to the availability of assets to satisfy the Funds' obligations. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net assets represent the balance of monies held in the Funds.

The statements of revenues, expenses, and changes in fund net assets provide information about the Funds' financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported. Generally, charges for services and premiums are considered to be operating revenues. Other revenues such as investment income are not generated from operations and are considered to be nonoperating revenues. The cost of services, administrative expenses, and depreciation on capital assets are considered to be operating expenses.

The statements of cash flows provide information about the Funds' sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital and related financing, or investing.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Funds are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

The Funds apply applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Funds have chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Funds consider cash on hand, demand deposits, cash on deposit with the County Treasurer, and highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

F. Capital Assets

Equipment is initially recorded at cost. Depreciation of equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of equipment range from 3 to 10 years.

G. Liability for Unpaid Claims

The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other socioeconomic factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

H. Employee Compensation Payable

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of vacation leave, but any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, County employees with accumulated sick leave in excess of 1,000 hours are entitled to a \$10,000 nontaxable investment in a Post Employment Health Plan established pursuant to Internal Revenue Code §501(c)(9). The obligations vested at June 30, 2008, under this policy are accrued as a liability.

Compensated absences are substantially paid within one year from fiscal year-end and, therefore, are reported as a current liability.

I. Income Tax

The Trust Funds are a component unit of Maricopa County, Arizona, a governmental agency, and are exempt from federal and state income taxes.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

NOTE 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the Funds to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Deposits—At June 30, 2008, the carrying amount of the Funds' deposits was \$739,891, and the bank balance was \$739,921. The Funds follow the County's policies requiring collateralization of all deposits by at least 101% of the deposits not covered by depository insurance. At a minimum, the collateral is to be held by the pledging financial institution or its agent, but does not have to be held in the County's name.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

Investments—The Funds' investments at June 30, 2008, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Funds' investments in the pool represent a portion of the County Treasurer's pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Funds' portion in the pool is not identified with specific investments.

Credit Risk—The Funds follow the County's policy to preserve the principal value and the interest income of an investment. The County can invest in obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities. The County can also invest in commercial paper and corporate bonds with ratings that meet the statutory requirements specified above. At June 30, 2008, the Funds' investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

Interest rate risk—It is the County's policy to hold investments to maturity, where practical, and avoid any loss on investments resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable. At June 30, 2008, the Funds had investments of \$94,497,187 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 537 days, of which 35% (in excess of \$1 billion) of pooled investments have maturities of 90 days or less. The County invests the pooled investments primarily in U.S. government agency securities.

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows:

Cash, deposits, and investments:	
Cash on hand	\$ 300
Amount of deposits	739,891
County Treasurer's Investment Pool	<u>94,497,187</u>
Total	<u>\$95,237,378</u>

NOTE 3 - Liabilities for Unpaid Claims

The Funds provide for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but unpaid (RBUC), and of claims that have been incurred but not reported (IBNR).

The County is liable for any single claim up to the insurance deductible or self-insurance retention (SIR), whichever is applicable, and the excess over insurance limits.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

The following insurance deductibles, self-insurance retentions (SIR), and insurance limits were in effect during fiscal year 2007-08:

<u>Policy Type</u>	<u>Deductible</u>	<u>SIR</u>	<u>Limit</u>
General and auto liability, and public officials' E&O		\$ 5,000,000	\$ 5,000,000
Excess liability			25,000,000
Property/inland marine	\$ 100,000		300,000,000
Boiler and machinery	100,000		50,000,000
Earth movement	100,000		50,000,000
Flood and water damage; low hazard	500,000		50,000,000
Flood and water damage; moderate hazard	500,000		35,000,000
Flood and water damage; high hazard	500,000		15,000,000
Difference in conditions low hazard		50,000,000	5,000,000
Difference in conditions moderate hazard		25,000,000	5,000,000
Difference in conditions high hazard		15,000,000	5,000,000
Difference in conditions low hazard		55,000,000	5,000,000
Difference in conditions moderate hazard		30,000,000	5,000,000
Difference in conditions high hazard		20,000,000	5,000,000
Employee dishonesty	100,000		10,000,000
Faithful performance of duty	100,000		1,000,000
Theft, disappearance and destruction	10,000		1,000,000
Robbery and safe burglary	10,000		1,000,000
Computer and wire transfer fraud	100,000		10,000,000
Workers' compensation		2,000,000	25,000,000
Employer's liability			2,000,000
Excess medical malpractice		5,000,000	25,000,000

Settled claims have not exceeded the above commercial insurance coverage limits over the past 3 years.

Risk Management Trust Fund

Liabilities for unpaid claims are estimates of the ultimate cost of claims that include the insurance deductible, the SIR, and the excess over insurance limits. The estimates are determined by an independent actuary using the following actuarial methods: reported loss development, paid loss development, Bornhuetter-Ferguson reported loss and paid loss, frequency times severity, expected loss, incremental paid-workers' compensation, paid

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2008

allocated loss adjustment expense to paid loss development-automobile liability, and tail liability for medical malpractice. Total liabilities are equal to the sum of:

1. Reported but unpaid claims (RBUC), which represent the estimated liability on reported claims established by the Risk Management department and
2. Incurred but not reported (IBNR) reserves, which include known loss events that are expected to become claims and expected future development on claims already reported. Therefore, IBNR is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Accrued actuarial liabilities are based on a discounted 55 percent confidence level assuming a 4.0 percent annual rate of return on investments.

The total liabilities reported at June 30, 2008, categorized by insurable area follow:

	<u>Total Liabilities</u>
Auto liability	\$ 1,528,702
General liability	32,356,132
Workers' compensation	10,643,934
Medical malpractice	12,875,708
Auto physical damage	258,259
Property	409,359
Total	<u>\$58,072,094</u>

The total estimates of unpaid claim liabilities of \$58,072,094 at June 30, 2008, increased by \$342,075 from last year's balance of \$57,730,019. The areas that increased were general liability and workers' compensation.

Changes in the liabilities for unpaid auto, general, workers' compensation, medical malpractice, auto physical damage, and property claims follow:

	<u>Balance</u>	<u>Current-Year</u>	<u>Claims</u>	<u>Balance</u>
	<u>July 1</u>	<u>Claims and</u>	<u>Payments</u>	<u>June 30</u>
		<u>Changes in</u>		
		<u>Estimates</u>		
2005-06	\$50,490,551	\$17,605,701	\$(12,179,859)	\$55,916,393
2006-07	55,916,393	16,330,438	(14,516,812)	57,730,019
2007-08	57,730,019	13,460,325	(13,118,250)	58,072,094

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Of these liabilities, \$24,568,575 were actuarially estimated to be payable within the next 12 months.

Employee Benefits Trust Fund

The liability for pharmacy (Coinsurance Plan), medical, dental, and short-term disability claims as shown below is based on the fiscal year 2007-08 actuarial reports. The Consumer Choice Plan portion of the liability for pharmacy is based on the unused portion of the members' pharmacy accounts administered by Walgreens Health Initiatives.

Accrued claims liabilities at June 30, 2008, for each insurable area follow:

Medical	\$7,957,000
Pharmacy	1,545,000
Dental	247,000
Short-term disability	357,000
Vision	100,000
Behavioral Health	259,000
HealthSelect	81,651
Total	<u>\$10,546,651</u>

Changes in the liabilities for unpaid pharmacy, medical, dental, and short-term disability claims follow:

	<u>Balance</u> <u>July 1</u>	<u>Current-Year</u> <u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claims</u> <u>Payments</u>	<u>Other</u> <u>Payments</u>	<u>Balance</u> <u>June 30</u>
2005-06	\$4,080,935	\$25,846,873	\$(27,155,823)	\$ -	\$ 2,771,985
2006-07	2,771,985	16,022,997	(16,588,914)	-	2,206,068
2007-08	2,206,068	95,933,611	(87,449,314)	(143,714)	10,546,651

It is estimated that the June 30, 2008, liabilities balance of \$10,546,651 will be paid within the next 12 months.

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NOTE 4 - Net Assets Deficit

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1995-96 through 1998-99. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net assets deficit of \$23,321,519 at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2008, the total net assets deficit was \$14,429,228. This is primarily due to the Risk Management Trust Fund not being funded for noncurrent accrued claim liabilities which are not considered when determining funding for each fiscal year.

NOTE 5 - Letter of Credit

On July 1, 2007, the County renewed its workers' compensation insurance with a self-insured retention of \$2,000,000 for the policy period July 1, 2007 through June 30, 2008. As a result, the Industrial Commission of Arizona required the County to secure an irrevocable letter of credit in the amount of \$5.9 million with a financial institution to cover unfunded workers' compensation claims for that policy period. During fiscal year 2007-08, the letter of credit had not been drawn upon. The letter of credit was renewed on July 1, 2008 to June 30, 2009 for \$4.2 million.

NOTE 6 - Retirement Plan

Plan Description—The Risk Management Trust Fund contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Risk Management Trust Fund's contribution rates. For the year ended

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June 30, 2008, active plan members and the Risk Management Trust Fund were each required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Risk Management Trust Fund's contributions to the System for the years ended June 30, 2008, 2007, and 2006 were \$126,790, \$107,105, and \$79,608, respectively, which were equal to the required contributions for the year.